



KATHLEEN VINEHOUT

STATE SENATOR

SB 459/Chesse Co-operative Tax Credit

Wisconsin dairy cooperatives process nearly 80% of the state's milk supply and manufacture about 50% of Wisconsin's cheese. These cooperatives, however, face stiff national and international competition. You may recall that Alto Dairy, a 108-year old cooperative which operated the largest cheese plant east of the Mississippi, was recently purchased Suputo Inc. of Canada. Our cooperatives have limited equity capital, which places constraints on making major investments in new plants and equipment.

While the 2007-09 state budget established a Dairy Manufacturing Facility Investment Tax Credit, cooperatives are not able to take advantage of this investment incentive because they are tax exempt organizations, and the current credit cannot be passed through to the cooperative's producer members.

SB 459 will allow members of a dairy cooperative to claim the Dairy Manufacturing Facility Investment Tax Credit for modernization or expansions of the dairy cooperative's processing plants.

Under this bill, cooperative members will be eligible for a tax credit up to 10% of qualified investments, with the credit capped at \$200,000 per processing plant. The credit will be distributed to members based on the amount of milk each member delivers to their cooperative.

In addition, the bills modify the current Dairy Manufacturing Facility Investment Tax Credit to provide non-cooperative dairy manufacturers with a similar cap of \$200,000 per processing plant.

Eligible investments will include things such as:

- Building construction
- Building additions
- Improvements and updates to milk intake and storage equipment; processing and manufacturing equipment, packing and handling equipment; waste treatment and waste management equipment

As with the current Dairy Manufacturing Facility Investment Tax Credit, the credit will be refundable, and will be limited to \$600,000 in the first year and \$700,000 in each subsequent year. If demand exceeds available credits, the credits will be prorated among claimants. Investments made between taxable years 2009 and 2016 will be eligible to receive the credit.

It is anticipated that providing this tax incentive for the producer owners of cooperatives has the potential to spur the building of a new commodity cheese plant and significant reinvestment in the modernization of cooperative dairy production facilities.

TP Meat Processor Investment Tax Credit and Dairy Plant Cooperative Tax Credit
Secretary Rod Nilsestuen
Remarks to legislature
Feb. 20, 2008

Thank you for inviting me here today to discuss the bold steps we are taking to strengthen and grow our economy. I want to thank you for your work over the last five years to support and modernize Wisconsin agriculture. More than ever we need your effort to help grow Wisconsin while preserving who we are in this state.

Agriculture defines our heritage, but it must shape our future as well.

We have much to celebrate today. Wisconsin agriculture is the bright spot on the 2008 economic outlook.

That is good news for the state because agriculture generates \$51 billion in economic activity and provides jobs for close to half a million people.

- **Milk production at a 17-year high** - increased by nearly 2 billion pounds or nearly 9 percent between 2004 and 2007.
- **Record cheese production.** Wisconsin cheese production set a new record in 2006, producing nearly 2.5 billion pounds of cheese, accounting for 26 percent of the national cheese market. *(Note: 2007 numbers coming out end of April...second highest in history...1 percent lower 2006.)*
- **Record high-end specialty cheese production.** Today more than 80 of the state's 115 cheese plants make at least one type of specialty cheese, accounting for almost half of the U.S. specialty cheese market in the U.S. - an all time high.
- **Record dairy exports.** Cashing in on world demand for whey, the dollar value of Wisconsin dairy exports increased more than 100 percent in the first nine months of 2007 compared to the same period the year before. *(Note: 2007 ag export numbers mid February.)*
- **Record investments by Wisconsin dairy farms.** Wisconsin's 14,000 family dairy farms have invested about \$1 billion to modernize in the past 5 years and report plans to invest more than \$1 billion in the coming 5 years.
- **Record investments by Wisconsin dairy plants.** Since 2004, Wisconsin's dairy processors have invested an estimated \$500 million to modernize; opened 23 new dairy plants and expanded 45 more. At least six additional specialty dairy plants are poised to open in 2008.
- **Record number of organic farms.** Organic farming in Wisconsin has risen by more than 90 percent in the last five years, according the U.S. Department of Agriculture. Wisconsin's entire organic industry - from processors to businesses to farms - has grown by 17 percent in the last year alone. Wisconsin leads the nation in organic dairy and livestock.

- **Fewer dairy farms leaving the business.** The rate of dairy farm loss has been reduced by two-thirds in the last 5 years. One month, the total number of dairy farms was down by only one.
- **Wisconsin's 1200 licensed cheese makers.** They craft more than 600 varieties of cheese, more than any other state or nation, and win more championship cheese awards than any other state. In 2007 Wisconsin brought home 60 percent of the best of class awards in the United States Cheese Championship.

These significant benchmarks did not occur in a vacuum. They are the fruits of a focused, strategic, bi-partisan, effort to re-invigorate dairy led by Governor Jim Doyle. The value-added dairy initiative's Grow Wisconsin Dairy Team and Dairy Business Innovation Center; the dairy investment tax credit; expansion of the use-value tax; and the livestock siting law all helped create the momentum we are feeling today.

We must continue the momentum.

Governor Doyle has announced new steps in our Next Generation of Agriculture plan to keep dairy farms in business and give farmers more tools to keep Wisconsin the best place to farm.

I am here today to urge support for two specific bills:

The meat modernization investment tax credit bill and the dairy plant cooperative tax credit bill.

Meat plant modernization tax credit

Wisconsin's livestock and meat sector generates \$12.3 billion for the state's economy annually, employs 19,400 people directly and 88,000 people indirectly.

Two factors are inhibiting growth in this important segment of the economy:

One is the outdated federal interstate meat shipment law.

The second is the capacity of our meat plants.

We are about to change the first at the federal level with a provision in the farm bill.

You have within your power to change the second by voting for the meat modernization tax credit.

The timing of these two changes creates a business climate that will allow the state's world-renowned meat industry to grow.

Two thirds of Wisconsin's 300 state-inspected meat processors surveyed said they want to expand if the ban on interstate meat shipment is lifted.

The meat modernization tax credit positions them to do so.

The meat modernization tax credit will generate revenue for the state by:

- Expanding markets for local farmers who provide almost all of the meat processed in local plants.
- Adding value to local livestock here at home instead of shipping them across state borders for processing. *Wisconsin has no large pork processors, for example, although we produce some of the world's best pork.*
- Keeping business on Main Street strong. The goal of the local food movement is to capture 10 percent of the Wisconsin food budget – creating tremendous synergy with those who raise and process Wisconsin's award-winning meats.

We need you to support this focused, targeted investment tax credit to help the state's 300 meat processors modernize and expand.

You will recall that in the first year of the dairy investment tax credit 40 percent of our farmers participated. Within two years the \$50,000 tax credit directly resulted in \$500 million private re-investment.

These investments positioned our dairy farmers to take advantage of record high milk prices. Today our dairy farmers are expanding, paying off loans and planning for the future.

The meat modernization tax credit echoes this successful strategy – By investing \$1 million as tax credits, we can leverage \$10 million in private investment - expand markets, increase processing capacity, and add value to Wisconsin livestock.

Dairy plant cooperative tax credit

Dairy is the state's signature industry and generates more than \$20 billion a year for the state's economy. Each dairy cow creates \$17,000 a year for the local economy.

Modernizing and expanding the state's dairy plants is the next and logical step in re-invigorating the state's dairy industry.

The state budget recognizes this important fact and creates a dairy plant investment tax credit program.

Now we must amend the dairy plant investment tax credit program created in the state budget to include dairy plant cooperatives.

We estimate between 60 - 65 cooperative owned processing or transfer stations can not take advantage of this credit and streamline their operations.

We must assure a simple, united program that will enable both private and cooperative cheese plants to modernize and expand. We must:

- Continue the Dairy Plant Investment tax credits
- Create new cheese cooperative tax credits

Each invests \$1.3 million to leverage \$13 million private investment

Non-coops will be able to claim up to \$600,000 in 2007 tax credits; \$700,000 in 2008-2014.

Cooperatives will be able to claim up to \$600,000 in 2009 tax credits; \$700,000 in 2010-2016.

The cooperative tax credit will filter down to member dairy producers who will be able to apply their share of the credit to their own income tax.

The cooperative tax credit will generate revenue for Wisconsin by helping cooperatives:

- re-invest in their plants
- modernize, expand and streamline
- share tax credits with member farmers
- keep jobs in Wisconsin
- Increase production

I want to recognize Senator Vinehout for her leadership on this important legislation.

Thank you.



**KEEPING THE
COWS IN WISCONSIN™**

Testimony in Support of SB 459 – Dairy Manufacturing Facility Tax Credit
Wednesday, February 20th, 2008

Good afternoon Chairwoman Vinehout and Members of the Senate Agriculture Committee. My name is Shawn Pfaff, and I am speaking on behalf of the Wisconsin Dairy Business Association (DBA) in support of SB 459 – the Dairy Manufacturing Facility Tax Credit. This bipartisan legislation allows for dairy manufacturing cooperatives to obtain tax credits for modernization and reinvestment. The DBA applauds the foresight and leadership of Governor Doyle, Chairwoman Vinehout, Majority Leader Decker, Minority Leader Fitzgerald and the Members of this committee for their commitment toward our state's strong and proud dairy industry.

The Dairy Business Association of Wisconsin is a statewide organization, of dairy producers, vendors, allied industry partners, and professionals actively working to assure that dairy producers, large and small, remain an active, thriving part of Wisconsin's economy, communities and food chain. DBA is dedicated to being proactive in ensuring a strong and vibrant future for the dairy industry in Wisconsin.

DBA has worked closely with Governor Doyle and legislators over the past couple of legislative sessions to lay the groundwork for the revival of the dairy industry that we have seen over the past five years in Wisconsin. Those strong, bipartisan accomplishments include passage of comprehensive agricultural siting legislation, which gives producers a state-wide framework of guidelines to follow to expand their operations instead of a patchwork of local ordinances that could restrict growth. Also, the passage of the dairy modernization tax credit in 2004 provided the economic incentive for dairy producers to expand and modernize their operations. As a result of these efforts, Wisconsin has seen its dairy cow numbers increase for the first time in a generation and seen a reduction in the rapid exodus of dairy farms that has occurred over the past 25 years.

Last summer, the Dairy Business Association worked closely with the Wisconsin Cheese Makers Association, Wisconsin Dairy Products Association, Wisconsin Agribusiness Council, Wisconsin Farm Bureau Federation and the Wisconsin National Farmers Organization in support of the Governor's and legislative efforts to include the Dairy Plant Investment Tax Credit in the 2007-09 biennial budget.

This Investment Tax Credit will allow for up to \$200,000 of investments made to expand or modernize Wisconsin's dairy manufacturing facilities. However, that tax credit did NOT include dairy processors who were cooperatives. DBA believes that dairy manufacturing cooperatives

must be included in this tax credit and join with Representative Davis and Senator Vinehout and others who have introduced SB 459 and urge the committee for its passage.

For now, Wisconsin still holds title to being the cheese capitol of our nation. Wisconsin cannot afford to have its dairy production remain static, it must grow! We cannot ignore the fact that as we speak, California is gaining ground towards becoming the cheese capitol of this nation. Last year, Wisconsin made 2.4 billion pounds of cheese, and California crept ever-closer to its goal by putting out 2.2 billion pounds. Not long ago, California out-produced Wisconsin in milk, the first step towards challenging our state's title of "America's Dairyland." All of Wisconsin's dairy production plants need this Dairy Tax Investment Credit to modernize their operating structure and processes to increase production, create new in-state jobs and to leverage themselves as a competitive player in the global marketplace where lower cost of production is the necessary edge needed to stay out front and remain a viable dairy processing industry.

Wisconsin dairy farms produce nearly 2.6 billion gallons of milk each month. That wholesome, fresh farm milk is sent to more than 200 production facilities in rural Wisconsin that employ thousands of workers to manufacture the nation's finest dairy products. Milk is the life blood of Wisconsin's crucial agricultural economy. America's Dairyland cannot afford to lose more dairy farms and we cannot afford to lose any more of the associated manufacturing, transportation, packaging and other skilled jobs that dairying supports. Governor Doyle and bipartisan legislators have recognized the important role the investment in dairy plants will have on the stability of the dairy industry in our state and the economic sustainability of the rural communities that depend upon them.

We encourage the members of legislature to help retain the 128,000 dairy-related jobs that put \$5.5 billion into our economy and onto our tax rolls -- the dairy industry in total is valued at nearly \$23 billion dollars a year to our state's economy. It is imperative that this important segment of our state's economy continues to grow.

Thank you, and I'd be willing to take any of your questions.



Wisconsin Federation of Cooperatives

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February 20, 2008

To: Members, Senate Committee on Agriculture and Higher Education

From: John Manske, Director of Government Relations

Re: Support of Senate Bill 459

Thank you for holding a hearing on Senate Bill 459 which will allow dairy cooperatives to claim the dairy manufacturing facility investment credit. In Wisconsin 2007 Act 20, the biennial budget, the legislature included the Dairy Manufacturing Facility Investment Credit. Dairy cooperatives that own manufacturing facilities can not take advantage of this credit because they are not listed in Wisconsin 2007 Statutes 71.47 (3p)(c) 3, which allows members of various businesses types to claim the credit in proportion to their ownership interest. SB 459 will allow cooperative dairy plants the same credit as proprietary plants, as it allows members of cooperatives to claim the credit in proportion to the amount of milk that each member delivers to their cooperative. There is no fiscal impact of the legislation until fiscal years 2009-10 and 2010-11, when the maximum amount of credit that may be claimed will be \$600,000 and \$700,000 respectively.

Eighty-five percent of the milk produced in Wisconsin is marketed through a cooperative and nearly 60 percent of the cheese produced in Wisconsin is made in a cooperative plant. The need to modernize our dairy manufacturing facilities is crucial at this time. The year 2007 brought a 17-year high in milk production to Wisconsin. Processors need more capacity to turn that milk into cheese, butter and other products. SB 459 allows cooperatives to modernize and increase their production capacity to process the increased supply of milk. The alternative would be to put the milk on a truck and send it to other states to be processed. Processing the milk in Wisconsin creates jobs and contributes to the \$20 billion the dairy industry brings in every year.

Thank you for considering our position on this important legislation.

